

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 NSAE-00
NSCE-00 SSO-00 ICAE-00 INRE-00 SOE-02 AID-05
CEA-01 COME-00 DOE-15 H-01 INR-10 INT-05 L-03
OMB-01 PM-05 OES-09 SP-02 SS-15 STR-07 TRSE-00
ACDA-12 /114 W

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 8440

INFO AMCONSUL CALGARY POUCH

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 04149

PASS DOE FOR LES GOLDMAN AND ASST. SECRETARY BERGOLD;
DOE/FERC FOR COMMISSIONER SMITH AND JOHN ADGER

E.O. 11652: GDS

TAGS: ENRG, CA

SUBJECT: GROWING CANADIAN DOUBT ABOUT USG COMMITMENT TO
ALASKA HIGHWAY GAS PIPELINE PROJECT

1. SUMMARY: THERE IS INCREASING SPECULATION IN CANADA
THAT GAS PIPELINE PROJECT IS FACING UNCERTAIN PERIOD OF
DELAY BECAUSE OF U.S. DOMESTIC CONTROVERSY OVER GAS
PRICING. GOC HAS CONSIDERED VOICING ITS INTEREST AND
CONCERN DIRECTLY TO USG BUT SIGNATURE OF CONFERENCE
COMMITTEE REPORT ON ENERGY BILL HAS HALTED THIS MOVE
TEMPORARILY. PUBLIC CONCERN WAS EXPRESSED IN SPATE OF
NEWSPAPER ARTICLES OVER PAST WEEK, GENERALLY CONCLUDING
PROJECT IS ALREADY DELAYED 6-18 MONTHS, AND THAT PREBUILDING
OF SOUTHERN SECTION TO DELIVER ADDITIONAL ALBERTA GAS
MAY NOW BE MORE IMPORTANT THAN EVER TO FINANCING PROJECT.
REPORT OF ERRANT STATEMENT BY FOOTHILLS PIPELINE OFFICIAL
ABOUT POSSIBLE DAMAGE SUIT AGAINST USG IF PROJECT DELAYED
BY FAILURE OF GAS LEGISLATION PRODUCED FURTHER FLURRY
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OF INTEREST AND SWIFT DENIAL BY FOOTHILLS. HOWEVER,
USG NEEDS TO DO ALL THAT IT NOW CAN TO BE REASSURING.
END SUMMARY.

2. DOUBTS IN CANADA ABOUT USG COMMITMENT TO ALASKA
HIGHWAY GAS PIPELINE ARE GROWING AND BECOMING INCREASINGLY
PUBLIC. SENIOR GOC OFFICIALS HAVE TOLD US PRIVATELY THAT

THEY WERE CONSIDERING MAKING AN OFFICIAL STATEMENT, REFLECTING CANADIAN INTEREST, WHICH COULD BE EITHER PUBLIC OR A PRIVATE HIGH-LEVEL COMMUNICATION. FOR THE MOMENT, SIGNATURE OF CONGRESSIONAL CONFERENCE COMMITTEE REPORT HAS QUIETED THIS CONCERN, BUT WE EXPECT IT TO HEAT UP AGAIN IN SEPTEMBER AS ENERGY BILL APPROACHES VOTE. MEANWHILE, NUMEROUS PRESS REPORTS OVER PAST WEEK REFLECT SPECULATION THAT PROJECT MAY BE DELAYED A YEAR OR MORE, OR EVEN ABANDONED ALTOGETHER.

3. WASHINGTON DATELINE STORY BY LAWRENCE MARTIN IN AUGUST 15 GLOBE AND MAIL BUSINESS SECTION SAYS THAT PROJECT MAY BE DELAYED AT LEAST A YEAR BY CONGRESSIONAL "HAGGLING" OVER GAS PROVISIONS IN ENERGY BILL. MARTIN'S STRAIGHT-FORWARD, FACTUAL ASSESSMENT OF PROSPECTS FOR PROJECT HIGHLIGHTED COMMENTS BY SENATOR JACKSON WHO "WONDERED IF PROJECT WOULD BE ABLE TO GO AHEAD AT ALL."

4. MOST CONSPICUOUS PRESS SPECULATION ABOUT FATE OF PROJECT WAS AUGUST 16 STORY IN GLOBE AND MAIL WHICH SAID THAT FOOTHILLS PIPE LINES WILL SUE USG FOR UNSPECIFIED DAMAGES IF APPROVAL OF ALASKA HIGHWAY PROJECT IS WITHHELD. STORY QUOTED DIANNE NARVIK, FOOTHILLS SENIOR VICE PRESIDENT AND PUBLIC RELATIONS DIRECTOR, WHO REPORTEDLY TOLD UNNAMED VANCOUVER REPORTER THAT BOTH U.S. AND CANADIAN GOVERNMENTS ARE BOUND BY INTERNATIONAL TREATY TO CARRY THROUGH WITH PROJECT. FAILURE TO DO SO WOULD GIVE

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FOOTHILLS AND ITS U.S. PARTNER, NORTHWEST PIPELINE, RIGHT TO CLAIM DAMAGES. CONGEN CALGARY CALLED FOOTHILLS CHAIRMAN KELLY GIBSON AND EXECUTIVE VICE PRESIDENT ROBERT PIERCE TO PROTEST NARVIK'S REPORTED STATEMENT AS UNSOUND AND UNHELPFUL. FOOTHILLS EXECUTIVES TOLD CONGEN THAT NARVIK WAS "QUOTED INACCURATELY AND OUT OF CONTEXT".

5. FOOTHILLS IMMEDIATELY ISSUED DENIAL WHICH WAS REPORTED BY CANADIAN PRESS SERVICE SAME DAY. FOOTHILLS' STATEMENT NOTED THAT FAILURE TO PASS ENERGY BILL WOULD PROBABLY DELAY PROJECT AND THEREFORE REQUIRE IT TO REVISE UPWARD CAPITAL COST ESTIMATES FOR PROJECT. STATEMENT STRESSED THAT FOOTHILLS "IS NOT CONTEMPLATING ANY LEGAL ACTION AGAINST ANY GOVERNMENT OR PERSON" AS RESULT OF DELAYS THAT MAY BE CAUSED BY U.S. LEGISLATIVE PROCEEDINGS. FOOTHILLS' STATEMENT WAS SUMMARIZED IN AUGUST 17 GLOBE AND MAIL STORY BY THOMAS KENNEDY ON FRONT PAGE OF BUSINESS SECTION.

6. AUGUST 17 GLOBE AND MAIL ALSO PUBLISHED STORY BY ENERGY CORRESPONDENT JEFF CARRUTHERS SAYING THAT DELAY OF PROJECT, IF CONGRESS FAILS TO PASS COMPROMISE GAS BILL,

WILL REINFORCE IMPORTANCE OF PREBUILDING SOUTHERN SECTIONS OF PIPELINE. CARRUTHERS SAID THAT POLITICAL AND REGULATORY BATTLES IN CANADA AND U.S. INVOLVING PAN ALBERTA AND PROPONENTS OF ALTERNATIVE GAS EXPORT SCHEMES OVER PROPOSALS TO EXPORT GAS THROUGH PREBUILT SYSTEM CAN BE EXPECTED TO INTENSIFY. PREBUILDING WILL OFFER FOOTHILLS GROUP WAY OF SPEEDING UP OVERALL PROJECT, PERHAPS ABSORBING MUCH OF YEAR OR MORE DELAY NOW FACING IT, AND WOULD ENABLE GROUP TO WRITE OFF EARLIER DEFERRED CHARGES WHICH HAVE BEEN ACCUMULATING AT RATE OF 3 MILLION DOLLARS A MONTH AND NOW TOTAL 60 MILLION DOLLARS. WITHOUT PREBUILDING, CARRUTHERS SAID, FOOTHILLS WILL BE RELUCTANT

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TO SPEND MORE ON ADVANCE PROJECT PLANNING AND TESTING.

7. COMMENT: IF CARRUTHERS' ASSESSMENT PROVES TRUE AND PREBUILDING BECOMES LYNCH PIN OF STRATEGY TO KEEP PROJECT ON SCHEDULE AND CONTAIN CAPITAL COSTS, USG CAN EXPECT THAT FOOTHILLS AND GOC WILL BE INCREASINGLY ADAMANT IN THEIR INSISTENCE ON SOME FORM OF COMPLETION GUARANTEE FOR OVERALL PROJECT.

8. WHILE WE SHOULD NOT MINIMIZE POTENTIAL DIFFICULTIES POSED BY CONGRESSIONAL IMPASSE OVER ENERGY BILL AND ITS IMPACT ON THE PIPELINE PROJECT, EMBASSY BELIEVES THAT USG SHOULD MAKE EVERY EFFORT TO DEMONSTRATE BY OTHER MEANS ITS COMMITMENT TO CARRY PROJECT THROUGH. ONE EVIDENCE OF SUCH COMMITMENT WOULD BE EARLY IMPLEMENTATION OF DOE REORGANIZATION PLAN NEEDED TO SUPERVISE PROJECT AND

APPOINTMENT OF FEDERAL INSPECTOR.

9. CLIPPINGS AND TEXT OF FOOTHILLS' STATEMENT FOLLOW
BY POUCH. ENDERS

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Message Attributes

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